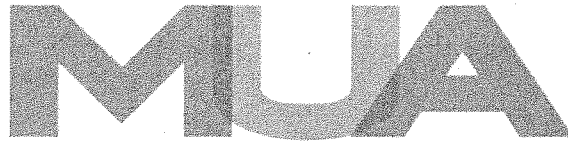


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

PSM 404 : PROCUREMENT AND CONTRACT MANAGEMENT

DATE: 18th APRIL 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. DO NOT write on this question paper.
3. This paper contains SIX (6) questions.
4. Question ONE is compulsory.
5. Answer any other THREE questions.
6. Question ONE carries 25 MARKS and the rest carry 15 MARKS each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and, answer the questions that follow:

CHUMA FOUNDRY

On April 1st, James Onyango, Materials Manager of Chuma Foundry received a letter from a supplier who was refusing James's request to terminate Chuma Foundry's linen laundering contract. Onyango firmly believed that the contract contained an exit clause that could be executed with proper notice, but his supplier had a different interpretation.

Currently, Chuma Foundry has a rental and laundering contract with Usafi launders for floor mats, uniforms, protective garments, and gloves, which amounts to about Kenya shillings five million annually. James decided to ask Usafi Launders to quote on a new contract. Consequently, James decided to terminate the Usafi Launders agreement. On review of the Usafi Launders' contract he had on file, James noted that clause 5 regarding the term of the service agreement stated:

The Agreement shall be in force for a period of three years from the date hereof, and thereafter for an equal period, unless terminated by written notice by either party prior to sixty days before the contract expiration date.

On March 31st, James, therefore, sent an E-mail message to Usafi Launders, stating:

Please accept this E-mail as written notification to terminate our existing agreement effective June 1st.

Early on April 1st James received a response from Usafi indicating they are unwilling to accept Chuma Foundry's request for termination. In their opinion, it was in clear violation of the signed contract. They explained that Chuma Foundry was locked in for a minimum three year term, which would not expire for another one year.

Further, Usafi launders believed that the contract clearly outlined that unless Chuma Foundry provided notice of 60 days prior to the contract end date, the service agreement would automatically be renewed for a subsequent three -year term.

Required:

- (a) Examine the different ways a contract may be terminated. (9 marks)
- (b) Explain three ways in which disputes may be resolved as depicted in the case above. (9 marks)
- (c) Under which two methods can Chuma Foundry seek cancellations of the contract and avoidance of the clause 5 in the contract (7 marks)

QUESTION TWO

- (a) Explain TWO advantages and TWO disadvantages of the use of standard and model form contracts as the basis of a legally binding agreement between two organizations. (8 marks)
- (b) Discuss the steps or measures undertaken by contract parties to increase the success rate in their contracts. (7 marks)

QUESTION THREE

- (a) "A faulty tendering process can lead to a court case if a tenderer complains"
"Discuss six pillars of a tendering process. (6 marks)
- (b) Examine under which conditions the supply manager can be personally held liable for contracts entered into on behalf of the firm. (9 marks)

QUESTION FOUR

- (a) Explain at least four methods of awarding contracts (8 marks)
- (b) Discuss at least seven purchase order conditions which make it a binding document in contracts. (7 marks)

QUESTION FIVE

- (a) Assess the elements of the Consumer Protection Act. (8 marks)
- (b) Explain the general rules governing contracts entered to orally (7 marks)

QUESTION SIX

- (a) Creating a legally binding contract, there are certain procurement procedures to be set out. Identify at least three of these procedures. (6 marks)

(b) In making an award of damages, the court can use certain considerations.

Identify and describe these considerations

(9 marks)